



April 22, 2003

To The Honorable Council
City of Norfolk

Lady and Gentlemen:

This letter serves to formally transmit the City of Norfolk Fiscal Year 2004 Proposed Operating Budget and Capital Improvement Plan. Included in this annual plan are the following:

General Fund Operating	\$651,946,900
Water Enterprise Fund	\$71,653,000
Wastewater Enterprise Fund	\$20,823,100
Storm Water Fund	\$8,413,000
Parking Fund	\$19,110,000
Other Funds	\$22,102,100
Annual Capital Improvements	\$68,514,000

This represents a total Financial Plan of \$862,562,100.

Despite a continually sluggish national economy and state financial woes, the City of Norfolk is holding its own. As a community with many aspirations, interests and challenges, we are maintaining our planned course and charting our future.

Many will recall in November of 2002, the City Administration began planning for the ensuing budget year by preparing a five-year revenue and expenditure forecast. With no new services as a part of that forecast, we were faced with a budget difference between revenues and expenditures of over \$26 million. Why then, without any new or expanded services, could there be such a budget balancing gap? The reason can be simply stated; however, the solutions are complex and challenging. Implementing these solutions will require continued fiscal prudence over several fiscal years.

The budget gap is caused by revenues being outpaced by the rising cost of expenditures for basic services. This is despite the fact that our revenues have grown. The City has benefited by the growth in real property and other limited revenue sources, but this growth has been insufficient to meet our needs. Among the factors causing this imbalance are:

- A continued slowdown of national economic recovery post 9-11 and the initiation of Operation Iraqi Freedom.
- The continued escalation of costs for goods and services such as basic supplies, utilities and fuel.
- Increased cost of health insurance and added costs, such as the City's contribution to the retirement plan.
- The continued reductions of State funding to the City.
- The accumulating cost of previously deferred maintenance and replacement of critical infrastructure systems (buildings, fleet, and utilities) which can no longer be ignored.

Yet despite these challenges, we remain committed to finding innovative ways to conduct our business and focus on our priorities:

- Building and maintaining strong neighborhoods.
- Protecting and developing our youth through education.
- Providing good social and cultural conditions that support healthy families.
- Maintaining a safe and clean city.
- Investing in opportunities that promote growth and financial capacity.
- Being accountable and effective stewards of the public's funds.

Over the last five months, each department and City expenditure proposed for FY04 has been reviewed and re-evaluated for potential reductions. This Budget Message provides an overview of the projected revenues and expenditures. Moreover, behind the dollar amounts are pragmatic approaches used to arrive at a balanced Budget. This has been achieved without multiple tax rate adjustments and no noticeable reductions in services or staff. Moreover, careful fiscal analysis has allowed us to still move forward with new or expanded programs that reflect the changing needs of our community.

The following Revenue Overview outlines the fiscal constraints that are the foundation to the FY 2004 budget.

REVENUE OVERVIEW

REAL ESTATE TAX

Since 1996, the real estate tax rate has remained unchanged at the current rate of \$1.40 per \$100 of assessed value. It is recommended that for Fiscal Year 2004, no change be made to this tax rate. The assessed valuation of real property is projected to grow at 5.8% percent citywide; reflecting a strong and redeveloping residential and commercial real estate market. Although these assessments result in each taxpayer ultimately paying more in property taxes, this is in direct relationship to the growth in property value and personal equity for property owners.

STATE REVENUES FOR FY 2004

State revenues present three challenges. First and foremost, current revenues do not adequately fund State mandates and commitments. For example, public education, K-12, is a State responsibility, yet the State does not provide sufficient funds to meet the quality standards set by its own State Department of Education. Second, on top of this inadequate base funding level, we anticipate an additional decline of over \$2.2 million in State revenues. Third, compounding this dilemma is the fact that Norfolk is landlocked, prohibited from annexation and thereby restricted by the State from creating funding mechanisms that could allow us to independently make up these shortfalls. Despite ongoing promises to make cities like Norfolk, Richmond and Roanoke fiscally whole, the State has failed to live up to its commitments.

Major State reductions for FY 2004 will include:

- The City will lose \$1.17 million in jail reimbursements, despite the fact that the cost to house prisoners is not going down.
- \$72,888 in law enforcement revenues (HB-599) will be reduced to the General Fund.
- \$323,760 in ABC and Wine sales profits that would otherwise come to the City will be retained by the State.

CIGARETTE TAX

Because the State of Virginia is governed by the Dillon Rule, Norfolk has only limited authority to offset these revenue losses. One opportunity available to the City is to increase the tax on cigarettes. Other cities in the region have already increased cigarette taxes as an effort in this regard. To help balance the FY04 Budget, it is proposed that the City tax on a pack of cigarettes be increased from 30 cents per pack to 50 cents per pack. This will result in additional revenues of \$2.96 million based on the anticipated sale of 14.8 million packs of cigarettes within the City limits. While we would have preferred to use this funding source for new and improved programs, it now becomes a safeguard from making service reductions to achieve a balanced budget.

EMERGENCY 911 FEES

In Fiscal Year 2003, the City initiated a full cost recovery program for the emergency communication operations through an increase in the Emergency 911 Fee. To continue this full cost recovery would require an additional adjustment of 40 cents tax in FY04 on land lines. Sensitive to the plight of all our City residents in these difficult economic and war times, no increase to the current fee of \$2.40 is proposed for FY04. However, the decision to avoid a fee increase results in the General Fund absorbing an additional cost of \$440,000. The ability to continue the current rate into future fiscal years will need to be reviewed annually. It is likely that a substantial increase will be required in FY05. The Commonwealth of Virginia; however, has restricted cities to a maximum rate of \$3.00, which is the rate charged by some of the other cities in the Hampton Roads area.

CHARGES FOR SERVICES

Minor fee adjustments have been made in certain fee-for-service categories to reflect the increased cost to deliver the service. Fees in this category include cemetery fees, such as the cost charged for opening and closing ground burials and mausoleums. This fee is proposed to be increased by \$15 to \$20. The fee for the installation of foundations will also be increased from \$.50 a square foot to \$.60 per square foot.

City-wide recreation classes and rental of public open space and parks will also have a slight increase. A schedule of both these fee increases is listed in the Proposed Budget under the Cemetery Division and Neighborhood and Leisure Services Department.

The proposed revenue increases were viewed from the perspective of the total impact on residents. Given that we are proposing significant water and wastewater rate increases

discussed later in this document, other increases were deferred. This fiscally prudent approach results in General Fund, non-categorical growth in revenues of only 1.4%. The use of one-time rollover funds from FY03 will be used to provide one-time assistance to avoid more painful reduction choices.

EXPENDITURE OVERVIEW

PUBLIC EDUCATION: NORFOLK PUBLIC SCHOOLS (K-12)

Nothing is more important to the success of a city than public education. Indeed, quality education is integral to our City's vitality and essential priorities: building strong neighborhoods, creating a positive future for our youth and promoting our community's economic development. The City of Norfolk is committed to fulfilling its responsibilities to provide funds for Schools, however, it must be done within available revenues and balance many critical community needs.

This year, the FY04 Proposed Budget provides a local contribution to schools of \$90,270,000. This is a 2.5% increase which is \$2,201,738 more than FY03 ongoing funds. It is with financial stretching that the City is able to provide this 2.5% increase, when locally controlled revenues, as previously referenced, are only growing by 1.4%. We recognize that this proposed funding represents a difference of \$3,048,346 as requested by the Schools' modified request for a 5% adjustment. In discussions with the leadership of the School System, tough decisions will be required. The City Administration believes that with anticipated additional money from the State based on average daily membership (ADM), carryover funds and other budget redistributions, many of the School's desired goals can still be achieved.

The Capital Budget provides an additional \$1 million for the Neighborhood Middle School Initiative. In subsequent years, it is recognized that Schools will need operating money for the capital and technology improvements as part of this School initiative.

Also, the proposed Capital Budget continues to fund the commitment to complete construction of the new Norview High School, and renovation of Blair Middle School.

HIGHER EDUCATION

The FY04 Proposed Budget continues to support the ambitious plans of our institutions of higher education. These plans are funded through unique partnerships with the private sector, the State and the City. They will transform neighborhoods, present our residents with new life-long learning resources, as well as generate jobs.

Norfolk State University is planning a state-of-the-art, three-phase development plan for approximately eleven acres located across from the main campus on Brambleton Avenue. This model development project entitled Research and Innovations to Support Empowerment (RISE), will be a multi-purpose center for education, training and research. It will offer workforce training for employment in the technology sector, along with business incubation services and facilities for high-tech start-up firms. As part of the eleven-acre site, the City is currently negotiating the sale of City-owned property to Norfolk State University's Foundation (Enterprise and Empowerment Foundation-E2F). Additionally, the City has committed to public infrastructure improvements that will be needed for street, sewer and water improvements over the next several years. Funds for planning and engineering this infrastructure work, in the amount of \$500,000 are within the FY04 Proposed Capital Budget.

The City will continue to provide \$ 1,595,000 for infrastructure improvements to support Old Dominion University's planned 75-acre University Village. This Village will include student housing, retail, research, entertainment and commercial elements. This is one of the most important and comprehensive efforts occurring in the entire region. The opening of the Ted Constant Convocation Center, as part of this master development, has added a new and important resource to Norfolk's entertainment and sports amenities.

NEIGHBORHOOD DEVELOPMENT AND PRESERVATION

Creating Community "Gems"

Several years ago, the City initiated a more focused nuisance abatement program to board up, and where appropriate, demolish blighted and abandoned properties. When the cost of these services is not paid by the property owner, a lien is placed on the property. This program has been successful in addressing immediate nuisance issues. However unused, and in some cases underutilized properties, still leave work to be done and continue to plague some neighborhoods.

In the FY04 Proposed Budget, we plan to make these eyesores into community “gems” by forming a team to acquire these properties. Existing State law allows cities to acquire private property if nuisance abatement liens and/or delinquent taxes are not paid by their owners. These properties acquired by the City will then be used to develop community tot lots, in-fill housing and other amenities, based on neighborhood developed plans. The Team will involve the Attorney’s Office, Planning Department, Property Maintenance and Environmental Inspectors, and the Treasurer’s Office. An Assistant to the City Manager will be the Team Leader. No additional funds are required as a portion of \$750,000 of funds allocated to board-ups and demolitions will provide the initial seed money to launch this initiative. Performance goals will be established along with regular reporting to the City Council and the public. This will be an exciting program to aggressively pursue the removal and redevelopment of derelict properties.

Recycling

Residents are desirous of a convenient automated recycling program that enables a wide range of materials to be recycled. The FY04 budget submission includes a phased-in approach for an automated curbside recycling system. Beginning in January, the Southeastern Public Service Authority (SPSA) will implement automated curbside recycling for one quarter of the City and will continue adding participants in six-month increments for two years. The cost of the service will be approximately \$3 per household, per month. Due to tipping fee savings and an anticipated reduction in refuse tonnage, the City will not incur additional costs until the second year of implementation. Therefore, a rate increase to cover recycling cost will not be needed until FY05. Increased recycling will be beneficial to the environment, reduce landfill needs, and help the regional landfill meet DEQ requirements.

Housing Redevelopment and Preservation

Several services and activities are ready to commence related to the *Come Home to Norfolk* campaign:

1. Norfolk Homes “Pattern Book” – Believed to be the only City-wide initiative in the United States, this book will celebrate Norfolk’s architectural styles. The Pattern Book will provide homeowners, builders, city planners and neighborhood groups a guidebook to home restoration and neighborhood beautification. It is anticipated to be published in July.

2. The Design Center - Scheduled to open later this year, the Center will provide technical, computer - aided design assistance on home rehabilitation or remodeling, as well as information on financial and other incentives. The Center will bring many resources together in one area and offer a variety of services including:
 - a. grant programs to repair or renovate homes owned by low-income residents; and
 - b. tax abatement programs to renovate homes in neighborhoods throughout the City.
3. Tax Abatement Program - This revamped program will be aggressively marketed to appeal to a broader range of homeowners and commercial property owners.
4. General Plan Update - This Plan, which has lead us through the revitalization of downtown, Ocean View and other areas of the City, will begin in earnest during the 2004 fiscal year.
5. Increased Home Ownership for our Residents - The City has embarked upon the use of additional federal, state and grant money to further the goal of increased home ownership for our residents. For instance, the Norfolk Redevelopment and Housing Authority, in collaboration with the City, has been awarded an additional \$8 million from the Virginia Housing and Development Agency (VHDA) to expand affordable housing opportunities. This initiative is a part of the agency's innovative Sponsoring Partnerships and Revitalizing Communities (SPARC) homebuyer loan program. The SPARC program uses mortgage revenue bond funds to provide financing at ½ percent lower than the authority's standard below-market rate. The increase of \$8 million for FY04 will be added to last year's allocation of \$4 million to create a substantial pool for our community.

Broad Creek Renaissance/Hope VI

In addition to the planned expenditure of Hope VI funds under the auspices of NRHA, the City's FY04 Proposed Capital Budget contains an additional \$1,000,000. These funds will be used in the non-Hope VI neighborhoods, such as Douglas Park, which are a part of the Broad Creek Renaissance. When complete, over \$200 million in public and private money will be invested in the Broad Creek Renaissance community.

To guide the expenditure of these funds, a comprehensive plan will be developed to chart the overall development of this area. It is anticipated that the planning process will start before the end of the current fiscal year and be completed within twelve months.

Beach Replenishment Efforts

Beach Erosion remains an important issue facing the City. It is imperative that the City protect its investment and the investment of businesses and homeowners from East Beach to Willoughby Spit from the ravages of nor' easterners and hurricane damage. An Emergency declaration will be made to nourish East Beach. The short term initiatives include dedicating Bay Point beach to the City and nourishing the beach and dune with 280,000 cubic yards of sand. In addition, the City will complete the construction of the breakwaters and nourish the 700 to 900 block of W. Ocean View Avenue with 20 to 30,000 cubic yards of sand. The long-term key initiatives include partnering with the US Army Corps of Engineers and completing a General Reevaluation Report and Planning, Engineering & Design (GRRPED). Hopefully, the GRRPED plan will reaffirm a federal interest in storm protection for Norfolk's entire Chesapeake Bay shoreline and favorable cost sharing initiatives for necessary projects.

Included in the Capital Budget is \$4.2 million for FY04 and \$1.2 million for FY05 for sand replenishment that will meet the short term needs of the beach restoration.

Conservation of Neighborhoods

The FY04 Proposed Capital Budget includes \$4 million for the conservation neighborhoods. The Norfolk Redevelopment & Housing Authority had requested well over \$8 million for the conservation programs, but this was not possible, given the aforementioned immediate needs for beach replenishment.

PUBLIC SAFETY

In the past year, Norfolk's public safety agencies have beefed up plans and training for handling all kinds of natural or manmade emergencies. In particular, the City's police, fire, health and other critical services agencies stepped up training on how to prevent, or deal with, the aftermath of terrorist incidents as well as purchased additional equipment.

Police

The City received a grant of up to \$4 million from the US Department of Transportation to enhance the security for the city's seaport. A portion of the money was used to purchase a fully equipped patrol boat and related marine security and law enforcement equipment. The grant will pay for the salaries and benefits of ten sworn police personnel for five years.

Fire and Rescue

Norfolk Fire and Rescue continues to pursue its goals of providing excellent customer service. A Customer Satisfaction Survey recently sent to one of every ten addresses (where the department had provided service) resulted in a 100% Customer Satisfaction Rating.

Norfolk Fire and Rescue is increasing its efforts to prevent fire injuries and deaths through education. The Fire Safety House, a specially designed mobile trailer, has been a helpful tool in teaching children fire safety procedures. The Department also continues to make numerous presentations to civic leagues and other groups on fire safety.

Norfolk Fire-Rescue has also been recently awarded a grant to provide 3,000 smoke detectors to single-family residents.

Sheriff and Commonwealth Attorney

Previously proposed State reductions for the Commissioner of Revenue and the Treasurer's Office have been restored. However, the Sheriff and Commonwealth Attorney are still experiencing significant reductions. The City will receive a lower per diem reimbursement for prisoners from the state. As a means to close this funding shortfall, the Sheriff has offered an alternate source of funding by proposing to enter into an agreement with the federal government to accept federal inmates. Through this innovative proposal, we anticipate receiving \$500,000 for the year. This will be closely monitored and if the program revenues do not come in as projected, the Sheriff will be requested to submit a budget reduction proposal for the remainder of the fiscal year.

PUBLIC ACCOUNTABILITY

Collections Division

In the course of developing the Gem Initiative, it was further determined that the City collection rates in some areas need to improve. The FY04 Proposed Budget creates a Collections Unit within the Department of Finance. Enhancements are anticipated from the consolidation of collection efforts, such as the possible termination of the library-outsourcing contract for a savings of approximately \$30,000, and increased collection rates from Fire and Paramedical Fees, and Nuisance and Abatement Fees. An 8% increase in Fire and Paramedical Fees over a two-year period would result in an approximate

\$340,000 increase in revenues per year. Increasing Nuisance and Abatement Fee collection over a two-year period to a 50% collection rate would increase revenues approximately \$163,000 per year. A second benefit anticipated to result from the Collection Unit is the improvement of response times of actual abatement activities. Over time, the centralized collection unit is anticipated to pay for itself, as new expenses have been projected at \$100,000 and revenues at \$300,000, for a net increase of \$200,000. This proposal was developed in consultation with the City Attorney's Office, who will continue to provide advice on the establishment of the unit, as well as provide follow-up legal procedures, when voluntary payment is unsuccessful.

Employee Salary and Benefit Adjustments

Regardless of the best made plans, it is our employees who implement them and make the real difference as to the measurable return on investment. Our employees are on the front line of determining the value and acceptability of services by the residents. They have continuously gone the extra mile to ensure that quality services are provided to our residents. In financially constrained times, when we may be able to least afford it, we need to make sure our employees are not forgotten.

Starting the budget preparation, it was my desire to provide both a general wage increase and restore the step increase plan. In FY03, step increases were frozen. After much pondering of the advantages and disadvantages of providing one over the other, I propose that there be no general wage increase. However, employees not at the top step of their pay range would receive a step increase, effective on their anniversary date, based on satisfactory performance.

For management employees who are unclassified and on a pay-for-performance system, the equivalent dollar value of one step would be placed in a pool of money for each department. Departments may use these funds to provide salary adjustments not to exceed on average the same percentage increase. Although individual management employees could typically receive more than 2.5%, in the aggregate within each department, the adjustment would have to average the 2.5%. Consequently, if some received more, others would have to receive less.

Approximately 20% of our City employees are at the top step of their pay range and without a general wage increase would not receive any adjustment. Reaching the top step has always had that stipulation and I do not propose any permanent structural change. I do believe that inflation and decreased purchasing power does make this a non-routine situation. Therefore, the Proposed Budget also reflects a one-time, lump sum payment of

\$350 for each permanent employee currently at the top step. This lump sum would be paid mid-year, January 15, 2004, and would not be added to the employee's base pay.

Health insurance again this year is increasing and some of that increase must be passed on to the employees to pay. After extensive negotiations with our health insurance carrier, Sentara, we were able to reduce the projected rate increase to 5%. These rates, however, are predicated on claims experience that is lower than the City's current claims rate. Therefore, we have agreed to set up a risk sharing pool for a maximum City exposure of 7.5%. If employees are successful in reducing projected medical expenses, the risk pool will not be owed. We will continue to promote employee wellness and health education programs. The risk pool will be established with the City providing half of the money and the employees the other half. The employee half will be built into the new rates. If the risk pool is not needed, employees will have a choice of receiving a taxable rebate, leaving the money as a credit to offset FY05 rate increases or placing the money in a Deferred Medical Savings Plan, being established this year.

The Deferred Medical Savings Plan works very similar to a deferred compensation plan, in that employees elect to put money aside for medical coverage when they retire. Details of the Medical Savings Plan must still be determined, however, it is anticipated that contributions to, and medically qualified withdrawals, will be tax free. Before the final plan is marketed, we will seek advice of an expert tax attorney through the City Attorney's Office.

As an incentive to enhance attendance, at the end of one plan year, any employee enrolled in the Plan that has not used their sick leave for that year would receive \$150 into their account.

Additionally, I am recommending that the day after Thanksgiving be added as a permanent holiday. For the last two years, the City has approved this day as a holiday on an ad hoc basis. The addition of this one holiday will make us more comparable to the surrounding cities and the State in terms of the total number of holidays.

Retirees

The FY04 Proposed Budget includes a 1% adjustment for those individuals retired before January 1, 2002. Those retiring after January 1, 2002 would not be eligible for the adjustment as they have not been retired long enough for a deflation in purchasing power to have occurred in their pension amounts. The cost of this retirement adjustment is estimated to be \$318,000 per year.

In meeting with the retirees' associations, I know that they continue to be significantly impacted by skyrocketing health insurance payments. Given the cost, however, I cannot recommend the City pay the insurance for retirees.

The City of Norfolk maintains a single, employer-defined benefit pension plan for its employees. The plan is administered by the Department of Finance and managed by a Board of Trustees. Benefit determinations are a policy matter and are made by City Council.

The pension system is a well-managed system that enjoyed the benefits of excellent investment returns in the 1990's. The system, with virtually every other system in the nation, over the past three to four years, has experienced staggering losses. After having reached a historic high in early 2000, the U.S. stock market has declined for three consecutive years (2000, 2001, and 2002). This is an extremely rare event as the last time this occurred was from 1939 to 1941 (following the 1929-1932 Stock Market Crash and the ensuing Depression).

These losses are compounded by the fact that imbedded in our actuarial assumptions is the expectation that we will record gains. An analysis using actual pension assets, recent fund performance, benefit payments, and City contributions during this period, indicate that this prolonged and severe bear market has negatively impacted the pension system by over \$300 million.

Fleet Management

The City will be implementing a systematic approach to vehicle replacement enabling it to address an existing backlog and allow us to more accurately anticipate fleet needs. We will also be extending the term of repayment on lease-purchased vehicles with longer lives. For the periods of July through December of last fiscal year as compared to this fiscal year, the amount of total downtime has been reduced from 529,727 total hours to 335,870 total hours. This is a 36.5% decrease.

Credit Cards to be Accepted by the City Treasurer

As a new convenience for our residents, beginning in July 2004, credit card transactions will be accepted in the Treasurer's Office. This initiative is designed to allow for the use of credit cards for payments of real estate and property taxes among other transactions. The City Treasurer and his staff are to be recognized for this initiative. Although there are

transaction related fees, they will not be passed onto the citizens. The City considers this one of the costs of doing business in a more convenient manner. We have budgeted \$25,000 in the Treasurer's Office to pay the transaction fee for this service.

HEALTH AND HUMAN SERVICES

Human Services Initiatives

During FY 2004, the Department of Human Services will be developing and implementing a series of new and groundbreaking initiatives based upon the common focus of providing enhanced customer service.

One primary initiative is the Workforce Development Center, to be located in the Ames Building at Wards Corner. This state-of-the-art, interactive "one-stop" will offer residents an array of employment services, from self-directed job searches to intensive support for individuals with significant barriers to employment. The Center will be a community partnership comprised of Human Services and other community organizations.

The second initiative focuses on the special needs of Norfolk's homeless population. The Homeless Action Response Team (HART) will coordinate enhanced services and funding for homeless families, an approach recognized by the White House as a potential best practice.

The third initiative seeks to maximize social workers' face-to-face contacts with families involved in the child welfare system. By relying more on technology and Support Technicians for processing paperwork, caseworkers will spend more time in the field and provide a continuum of services for high-risk families.

Community Services Board

The FY04 Proposed Budget provides the Norfolk Community Services Board (CSB) with \$2,155,000, up from \$2,002,500. As a result of State cuts, CSB continues to struggle to provide services to those among us who are the most ill, the most disabled, and the most in need. Unfortunately, the City is not in a financial position to be able to backfill the lost funds.

ENTERPRISE FUNDS

Water Fund

The FY04 Operating Budget is \$71.3 million, an increase of \$3.3 million over FY03. This Proposed Budget reflects a rate adjustment of \$0.25 per hundred cubic feet (CCF) of water. The Proposed Budget further recommends rate adjustments of \$0.25 in FY 2005 and in FY 2006, followed by gradual and predictable rate adjustments of 3.5% each year thereafter. This rate setting strategy will allow the Department of Utilities to complete a needed \$170 million water system rehabilitation and replacement over a 10-year period. It is critical that the City address this aging infrastructure in order to bring dams into compliance, replace deteriorated raw water pipelines, replace the 80-year old water treatment plant components, and combine both water and sewer replacement projects to minimize neighborhood disruptions.

Wastewater Fund

The FY04 Operating Budget is \$20.6 million, an increase of \$5.5 million over FY03. The FY04 Proposed Budget reflects a rate adjustment of \$0.68 per CCF in FY04, and further recommends a rate adjustment of 4% each year thereafter. This rate setting strategy will allow the Department of Utilities to fund approximately \$17 million each year for neighborhood sewer system replacement projects. This replacement program will provide improved wastewater service to Norfolk's residents and businesses by reducing failing pipes from 60% to about 35% of the system over the next 10 years.

Water and Wastewater Combined Rate Adjustments

In FY03, the combined water and wastewater monthly charges for a typical residential account are \$33.65 a month. With proposed rate adjustments, the monthly total bill will be \$40.60 in FY04. This increase of less than \$7.00 per month will cost a family less than two 12-packs of soda or a ticket to the movies.

Utility Bill-Paying Assistance Programs

Financial assistance programs are available to Norfolk utility customers in need. Norfolk's Lifeline Program, managed by the Departments of Utilities and Human Services, provides eligible individuals with up to \$270 in water bill financial assistance and up to \$500 in plumbing repair financial assistance. Through Lifeline, more than 1,600 families received a

total of \$430,000 in financial assistance in FY02. It is anticipated that \$500,000 will be paid out in FY03.

Further, Norfolk participates in a regional program called H2O or "Help to Others." This program, administered by the Salvation Army, provides financial assistance to customers in need. Funds for the H2O program are generated from community donations.

Storm Water Management

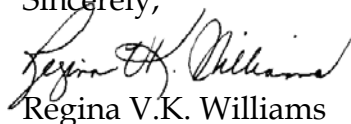
Each year, the Division of Environmental Storm Water Management invests about \$2 million in a Capital Improvement Program (CIP). The CIP is a series of major construction projects that Norfolk completes to improve storm drainage and to protect water quality. CIP projects include drainage system repairs and enhancements throughout the City. Through the CIP, Norfolk also maintains and upgrades storm water pump stations and builds storm water retention ponds.

The City dedicated the Lambert's Point Pond designed to reduce flooding and storm water runoff pollution. At the same time, landscaping and a fountain have turned the pond into beautiful neighborhood asset.

CONCLUSION

Despite these on-going difficult financial times, the City of Norfolk continues to "*Stay Its Course and Chart Its Future*". Given prudent, long-range fiscal planning, we have been able to continue to provide the quality services that our residents expect and deserve. We are proud of our many accomplishments in revitalizing our economy. These efforts are providing the dividends that we had hoped for: new amenities, additional housing stock, and good schools for our children. We are building towards our future with patience and perseverance. While the fiscal situation for the last couple of years has been difficult, we have continued to find ways of doing business to become more cost effective and innovative. Due to the dedication of our City employees, Norfolk maintains a standard in public service excellence for which the community can be proud. We look forward to the year ahead knowing that our staff and community will continue to partner to meet our fiscal challenges.

Sincerely,

A handwritten signature in black ink, appearing to read "Regina V.K. Williams".

Regina V.K. Williams

City Manager

